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Introduction

1.1 Section - I Background

- 1.1.1 A well developed Infrastructure and Transport System is a critical pre-requisite for the economic upliftment of any country and is a major contributor towards competitiveness. Government of Pakistan gives due priority to create efficient transport and communication systems for the development of Pakistan. Among the various means of transportation, Road Transport is the backbone of Pakistan's Transport System, accounting for 90% of national passenger traffic and 96% of the freight movement. In order to create a growth facilitating infrastructure, GoP has taken a major initiative of National Trade Corridor Improvement Programme (NTCIP) with a view to revamp and streamline the trade and transport logistics of the country. The framework to develop and improve the North South Corridor has been incorporated in NTCIP.
- 1.1.2 Strategic thrust of NTC is to enhance efficiencies through provision of world class infrastructure, efficient logistics chain and smooth interface between public and private sectors.
- 1.1.3 In order to achieve tangible results, committees were formed under the NTCIP Task Force for various sectors to carry out work in an efficacious manner to bring improvement in different modes of transportation. These were further assigned separate targets along with time frames in their respective areas.
- 1.1.4 For the trucking sector, the committee was constituted under the Chairmanship of Secretary Industries, Production & Special Initiatives to workout a policy framework to **"Modernize the Trucking Sector of Pakistan"**.
- 1.1.5 Engineering Development Board, being a technical arm of Ministry of Industries, Production & Special Initiatives was therefore mandated by the MoIP&SI to develop a strategy on **"Modernization of Trucking Sector"**. Accordingly, EDB prepared a detailed Road Freight Strategy Paper in April 2006 which was widely circulated to the stakeholders of this Sector. An awareness survey was also carried out and views regarding the envisaged policy were sought from the stakeholders. Provincial Transport Authorities were also sensitized on issues directly concerning them.
- 1.1.6 In this context, a Workshop was organized by EDB on February 13, 2007 which aimed to conclude the consultation process with the stakeholders for formulating the policy required for Modernizing the Trucking Sector of Pakistan. This Workshop enabled discussions and focused on several inter-related issues, in a forum representing the trucking industry and other relevant stakeholders and experts.

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1.1.7 As a follow up, EDB prepared a detailed report on the proceedings and conclusion of the workshop. In a meeting, held on February 28, 2007, in the office of Mr. Jahangir Khan Tareen, Minister for Industries, Production and Special Initiatives, EDB made a detailed presentation. The outcomes of the workshop of February 13, 2007, were highlighted, in particular the positive aspect that industry representatives and relevant stakeholder groups had jointly reached a consensus on diverse issues requiring focus for modernizing the trucking sector. A framework for developing policy proposals and recommendations was decided by the Minister with directions that detailed policy proposals should be formulated and submitted by EDB, with necessary inputs and support of the World Bank.

1.1.8 In subsequent follow up meetings and discussions with the Minister, it was concluded that for the purpose of policy proposals and recommendations, all such major areas should be covered that are necessary components for creating an integrated and modernized environment for the trucking sector.

1.1.9 National Trade Corridor Improvement Program – Objectives

1.1.10 The framework to improve the North – South Corridor takes a holistic and integrated approach to improve the trade and logistics chain by bringing it up to international standards through reducing the cost of doing business in Pakistan. The aim is to enhance regional connectivity and to improve links with the Central Asian States, Iran, Afghanistan and India. The challenges of development of the North – South and East - West trade links, energy and industrial corridor with China, Central Asian Republics, Afghanistan and Iran would also stand well established.

1.1.11 For Pakistan, to compete regionally and internationally, modernization of trucking sector is imperative, as our

dependence on road freight is high and is growing fast. The major objectives of the National Trade Corridor Improvement Programme (NTCIP) has therefore been agreed as under:

- Achieve multi-dimensional benefits, reducing the overall economic losses and significantly contributing to the national exchequer.
- Reduce the transport cost of trade through restructuring and modernization of infrastructure facilities under the NTCIP, which will contribute in terms of savings, \$ 2 to 2.5 billion per year.
- Modernize trucking fleets to reduce fuel import bill by 25 percent and road maintenance cost by \$ 1 billion.
- Reduce tariff on multi-axle vehicles for five years to implement the plan for development of road network.
- Widen and rehabilitate 600 kilometers of KKH at the cost of \$350 million as per MOU signed between Pakistan and China, to provide access to China, Kazakhstan and Kyrgyzstan for export of their goods through Gawadar Port.
- Reduce travel time by 50 percent, traffic accidents by 70 percent and road losses of \$ 1.5 billion.

1.1.12 Targets for Trucking Sector

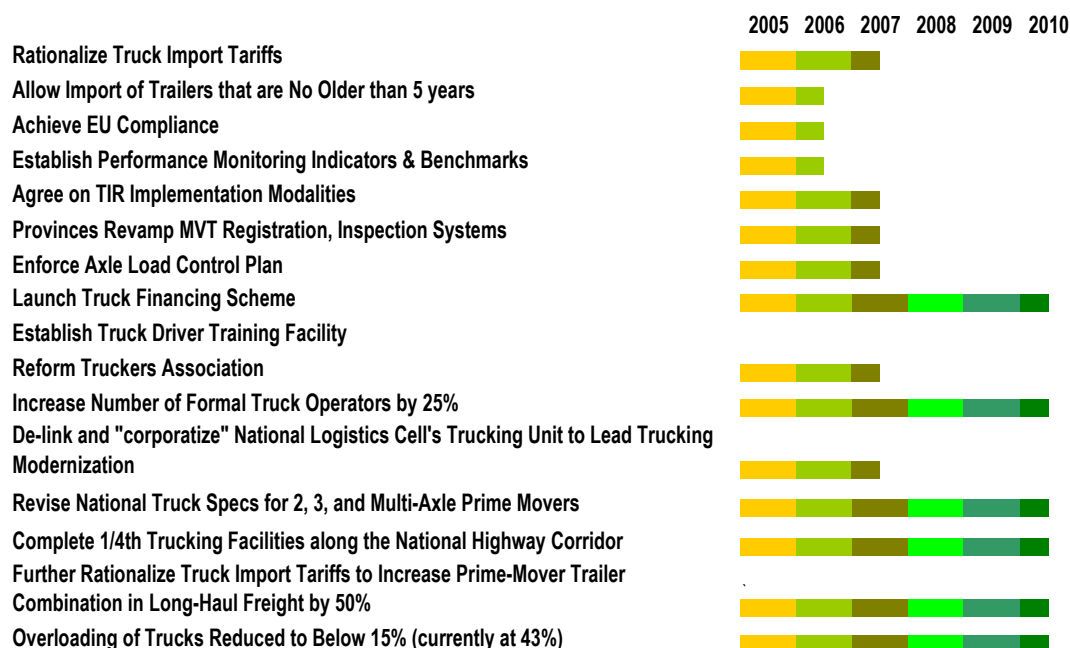
1.1.13 The following targets were to be achieved within the stipulated time frame by the Trucking Sector.

- **Make Pakistan a regional hub for international trade and facilitate expanding trade volumes**
- **Effectively control overloading, environmental externalities and fuels quality**
- **Reduce operating costs, achieve fuel efficiency & save road assets**
- **Replace obsolete 2-axle and 3-axle rigid trucks**
- **Encourage introduction of modern and multi-axle prime movers and**

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- euro standard trucks by rationalizing import tariffs
- Incentivize fleet operations – declare trucking sector as an industry
- Replace ineffective MVE System
- Revise National Truck Specifications and mainstream the roadside assembly/ conversion / modifications accordingly

TARGETS AND TIME LINE FOR TRUCKING – UP TILL 2010



1.1.14 Before going into the details of the policy proposals, a brief overview of the sector and the issues hindering the modernization of this sector are discussed in the following section.

1.2 Section – II Pakistan Road Freight Sector – An Insight

1.2.1 Pakistan's Road Freight Sector has its economic existence and contribution to the GDP, but nevertheless it is poorly regulated despite being deregulated. It is operating in a highly competitive environment, the overall structure is informal and un-organized.

1.2.2 The sector generally comprises of very small fleet owners except for a few organizations that own fleets of more than ten vehicles. National Logistics Cell (NLC) being the government entity

(recently corporatized) owns and operates a large fleet of trucks and trailers. Some large investors are importing used trucks and concrete mixers, which are converted and then sold to individual truck and fleet operators on installments. The small owners are largely dependent on freight brokers who have a dominant hold on the operations of this sector. The owner-driver setup is estimated to be about 10% of the sector.

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1.2.3 The trucking sector is responsible for almost 96% of the total ton/kms freight and dominates the market owing to a weak and unreliable railways system. Sector inefficiencies are costing upto economy Rs.150 billion/ year, consisting of:

- Rs. 60-90 billion/year extra fuel cost and subsidies on diesel.
- Rs. 30-35 billion/year additional road user costs.
- Rs. 25 billion/year contribution to the infrastructure deficit.

1.2.4 Factors responsible for the sector's inefficiencies, resulting from low serviceability are largely caused by overloading, fuel inefficiencies, road damages as well as environmental hazards.

1.2.5 According to the available GoP's statistics there are 173.3 thousand trucks plying on the roads. The table below depicts the data. The number of registered trucks, however, varies and is reported for the FY-2006 as 208,347.

Number of Registered Trucks	
Fiscal Year	Registered Trucks
2000	148,569
2001	157,027
2002	170,615
2003	178,883
2004	181,150
2005	183,962
2006	208,347

Source: Economic Survey 2006-2007

Trucks on Road	
Year	Trucks on Road (000 Nos)
2000-01	132.3
2001-02	145.2
2002-03	146.7
2003-04	149.2
2004-05	151.8
2005-06	151.8
2006-07*	173.3
* Estimated	Source: NTRC

1.2.6 Of the total, 70% of the trucking fleet comprises of 2-axle trucks. Composition of trucks by Axle Configuration is given below:

Composition of Trucks by Axle Configuration					
	2-Axle	3-Axle	3-Axle Trailer	4-Axle	5 & 6 Axle
Numbers	53,864	16,805	944	5,076	1,503
Percentage	70%	21.5%	1.2%	6.5%	1.92%

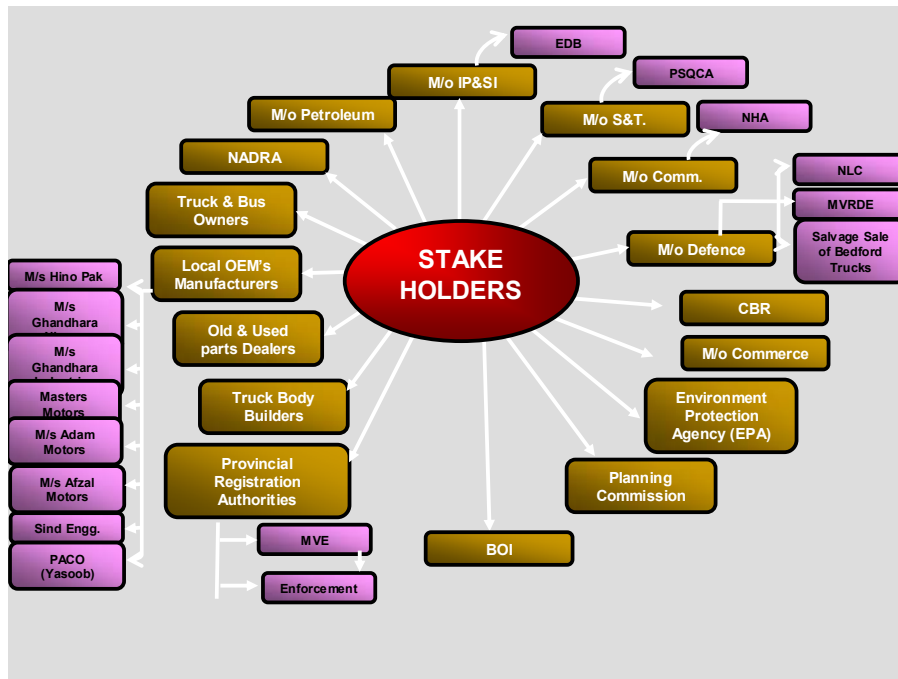
Source: National Highway Authority

1.2.7 Presently, the domestic demand of cargo is around 250 - 300 million tonnes. This is much higher than the international demand of about 45- 50 million tonnes. With increase in traffic, the present Trucking fleet as well as the logistic systems are not in a position to handle the increasing domestic and international demand. Moreover, due to fuel inefficiencies of the old and obsolete trucks, fuel consumption per tonne is higher as compared to the world average. Although Pakistan's

freight cost is the lowest in the world but in terms of one tonne per kilometer, expenditure is much higher as compared to the world due to these inefficiencies.

1.2.8 Stake Holders of the Sector

Following stakeholders have their involvement, either directly or indirectly in the trucking sector and influence the operations and structure of the whole sector in one way or the other.



1.3 Section - III Issues in the sector

1.3.1 Fleet Composition & Technology:

Currently there is a population of around 173,300 trucks plying on the roads. The poor state of technology, presence of old & obsolete fleet and rigid trucks dominantly 2 & 3 axle suspensions, the sector cannot be expected to get integrated with international trade routes. The present state of affairs prevailing in this sector is largely due to the absence of requisite polices and non-existence of an intelligent Transport System.



Despite closure of Bedford operations and imports since 1979 and 1989 respectively, the assembly of Bedford Truck is still going on in Pakistan. A complete Bedford Truck is being assembled at a cost of 5 – 8 Lac depending upon the quality of product.

1.3.2 **Trucking Sector's Non-Recognition as an 'Industry'**

So far, in spite of the repeated demands from the Stakeholders to formalize this sector, the trucking sector was not declared as an **"Industry"** due to its weak overall structure. Ownership of trucks is limited which hinders profitability and acquisition of modern trucks. This also results in overloading. Trucking Sector has been marginalized in Pakistan and is in a most fragmented state, with no concept of corporatization that can bring about related benefits.

1.3.3 **Financing/Leasing Issues**

Presently, the sector obtains financing through informal practices which are largely controlled by a few investors who are responsible for obsolete and old truck fleets in the country. Low cost financing by the banks and leasing companies, as available for cars and the light vehicles segment, is not available to this sector. The main source of financing for small operators is private financiers who charge very high interest and demand short repayment periods.

1.3.4 **Insurance Problems**

The insurance companies are not ready to provide insurance cover to truck operators. There are three main types of insurance relevant to the sector, i.e. a) Cargo insurance, b) Vehicle insurance, c) Personal insurance. Insurance companies are not providing any type of cover to the transport sector because of the fact that individual truckers do not fulfill the legal requirements for insurance. The sector is therefore not being encouraged by the Insurance Companies.

1.3.5 **Freight Charges**

An unhealthy and intense internal competition prevails in the sector, which compels it to operate at very low

profits. The increase in the fuel prices during the last few years has depressed revenue per loaded KM of an articulated truck which in real terms has declined by an average of 1.4% per annum. This is because of the unbalanced land freight demand in Pakistan, largely due to dependence on seasonal transportation of agricultural goods.

1.3.6 **High Truck Operating Cost and Low Profits**

A large population of trucks is old, structurally weak having a tendency of overloading. The freight rates are low, due to which the profitability is low. Therefore no re-investment is possible with such low profitability levels.

1.3.7 **Serviceability**

Low quality of service is seriously impeding Pakistan's trade competitiveness both at internal and cross-border levels. With only two ports in the south of country, the delivery times are longer as compared to other countries. The upcountry movement of a Pakistani truck from the Karachi Port takes 3-4 days which is twice the time taken in Europe or East Asia for a similar journey.

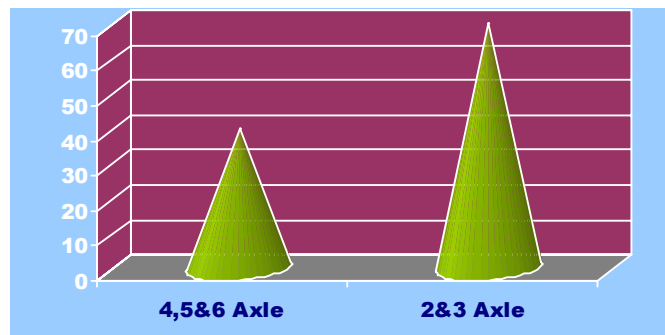
1.3.8 **Motor Vehicle Examination (MVE)**

Motor Vehicle Examination is a provincial function and is being governed through Provincial Motor Vehicle Ordinance 1965 - Section-39, Provincial Motor Vehicle Rules 1969 Section-35 and National Highway Safety Ordinance (NHSO-2000). Weak regulations and poor enforcement of Motor Vehicle Laws is a great setback to our system. MVE has no proper testing workshops and skilled human resource to examine the vehicles and their offices are located in congested areas in most of the cities. As such, no physical inspection of vehicles is conducted and the MVE is reduced to being merely a "rubber stamp" function.

1.3.9 Axle Load Management

The illegal modification of trucks by non-qualified road side fabricators, low freight rates due to unhealthy competition and prevalence of ineffective vehicle examination system

in the country results in overloading of vehicles which damages the roads and causes accidents. According to an estimate, 70% of the 2, 3 axle trucks and 40% of 4,5 and 6 axle trucks are overloaded.



Source: Report –Finn Road

1.3.10 Roads deterioration and damages due to overloading are imposing huge infrastructure maintenance cost as well as slow travel times and high fuel costs



1.3.11 Further, due to non-existence of a uniform, standardized and regulated registration system, it has become difficult to assess the number and categories of rigid, articulated and multi-axle trucks plying on the roads.

1.3.12 Logistics Planning and Trans Freight Stations

National Highway Authority (NHA) and Urban Planning Departments have failed to develop proper transport planning in urban areas. There is no concept of Trans Freight Stations (TFS) in Pakistan that could make multiple facilities available at one place. Large trucks are allowed to travel within the cities and are a cause of unchecked

congestion. World over, the concept of TFS, or dedicated facilities, has helped develop and streamline the logistics planning systems. So far no such system has been introduced in Pakistan which could provide facilities at dedicated sites to support operations in the trade distribution chain along with providing facilities to the truck drivers, such as rest areas etc. Other support facilities at TFS, such as Workshops, Outlets of MVE's and E&T Department (E&TD) functions, etc. could counter the problems associated with large vehicles entering into the main cities for obtaining various services.

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1.3.13 Drivers Training, Licensing & Other Issues

1.3.14 Currently there are no training institutes for the proper training of drivers in accordance with international standards and best practices applicable to driving a truck. 80% drivers are trained on old trucks, and are not aware of the modern systems, requirements and rules & regulations for trans-border trade.

1.3.15 Although truck drivers play an important role in freight movement and the overall trade activity, they are one of the most neglected segment of our society, with no access to medical and other support facilities. Their working hours are stretched and there are no proper rest and re-recreational facilities for them. This leads to inefficiency, high accident rates and low productivity.



Anti Aerodynamic Design

1.3.16 Absence of National Standards for Trucks and Trailers.

There are no Standards for trucks and trailers plying on the roads. The Motor Vehicle examiners have no yardsticks against which to match the specifications and performance of the vehicle being examined. Illegal and unauthorized modifications that use sub-standard materials and technically flawed practices are being carried out by road side fabricators. These practices damage OEMs specifications and are a major safety hazard and cause of road accidents.

1.3.17 Anti Aerodynamic Design

Owing to the prevailing non-scientific culture and absence of National Standards & Specifications for Trucks/Trailers, trucks plying on Pakistani roads have bodies which do not conform to any rule of aerodynamics. According to an estimate, resistance to air flow created by such truck bodies increases fuel consumption by at least 15- 20 percent.



Aerodynamic Design

1.3.18 Border Clearance

The border clearance procedures are non-standardized, cumbersome and time consuming adding to the cost and time of operations.

1.3.19 Import of Used Parts

The serious flaws in the system need to be corrected in relation to import of parts and components in scrap form / sub-standard condition. In spite of regulations and checking by almost five

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government agencies, such parts and components are being released and supplied to the open market in large quantities.

another challenge that requires to be addressed.

1.3.20 Environmental Protection

Most of the trucks do not comply with Euro Specifications, which are the most widely accepted standards. The world has moved to Euro 4 & 5 environment friendly engines, while in Pakistan, compliance with even Euro-1 standard has not been introduced. Similarly availability of sulphur free diesel is

1.3.21 Army Auction Depots

The main source of chassis for Bedford trucks assembly is the Pakistan Army Depots for unserviceable and scrapped trucks. Pak Army has a huge stock of Bedford trucks which are disposed off through public auction. For Bedford truck assembly, the chassis come from such army auctions while used engines and transmissions are imported through illegal routes and undocumented channels.

1.4 Section – IV Trucking Policy Objectives, Framework, Scope & Structure

1.4.1 Policy Objectives

The Trucking policy aims to *reform and promote an integrated, enduring and sustainable modernization of the Trucking Sector in Pakistan. The policy aims at an holistic approach rather than dealing with each subject in isolation, The approach seeks to address all cross sectional and cross cutting subjects related directly or indirectly to the subject of Modernization of the Trucking Sector in Pakistan.* This approach would enable integration of Pakistan’s Trucking Sector with the larger potential markets of the North South Corridor and would result in improving trade efficiency, thus contributing directly to reducing cost of doing business.

1.4.2 Framework

There exists national consensus that Trucking Sector has to be modernized if Pakistan wants to take advantage of its geographical location and natural advantages.

1.4.3 In the light of issues impeding the development of this sector, there was a need to define a strategic framework focusing on challenges and opportunities arising out of expanding trade across the National Trade Corridor. Any missed opportunity at this stage by the local fleet operators would fall to the advantage of international operators. Simultaneous actions on the recommendations of each of the chapters in a coordinated way can only produce tangible results.

1.4.4 Scope

The scope of this policy document therefore covers subjects that are inter-related and necessary to address in the context of “**Modernizing the Trucking Sector of Pakistan**”. The subjects are components that in integration would constitute a comprehensive and integrated business and operational environment, necessary for effective and efficient operations of a modernized trucking sector. From a large number of issues, the following core components have been addressed in this Policy document with the

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objective that by addressing these core issues, major problems of the sector would be resolved and it would stand formalized:

- Industry Status for Trucking Sector
- Tariff Rationalization
- Motor Vehicle Registration (MVR)
- Motor Vehicle Examination (MVE)
- Trans Freight Stations/Modern Cargo Handling Facilities
- Drivers training and re-training / licensing
- Axle Load Management
- Trailer Manufacturing and Registration
- National Standards and Specifications for Trucks and Trailers
- Industrial Estates for Truck Body Makers.

1.4.5 Introducing new specifications for Trucks and Trailers, Regulations and Quality Assurance of Manufacturing & Assembly, Axle Load Control through establishment of Weigh Bridges on Provincial and Federal road networks, Vehicle Fitness Testing and Certification, Driver Re-training and Licensing, and above all revising Regulations and Enforcement covering

all these subjects, constitute one part of the operational environment. These need to be complemented equally by an effective Computerised Vehicle Registration Systems, Accessible Trucking Data, Electronic Tolling, Tracking and Monitoring capabilities across Trade Corridors and at Entry and Exit Toll Points, etc. A complete and integrated environment is necessary for commercially sustaining an infrastructure of quality highways and roads, for attracting large fleet operators to the environment and for achieving the programme envisaged under the National Trade Corridor.

1.4.6 Structure

Each Chapter of this Policy document therefore has been structured to cover:

- The relevance and importance of each subject.
- The current situation and deficiencies.
And, accordingly provide the basis for:
- Proposals for policy decisions by the Government